

**CITY OF FRUITLAND**  
**Fruitland, Iowa**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2010**

NEWS RELEASE

Contact: Vicki A. Beckey

FOR RELEASE Immediately

Taylor, Rees, Beckey & Co. P.C. today released an audit report on the City of Fruitland, Iowa.

The City's revenues totaled \$659,830 for the year ended June 30, 2010, a 70.53% percent increase from the prior fiscal year. Revenues included \$111,798 in property tax, \$105,295 from charges for service, \$63,994 from local option sales tax, \$17,430 from unrestricted investment earnings, \$1,368 from licenses and permits, \$65,212 from intergovernmental, \$6,773 from other miscellaneous revenues and \$287,960 from transfers.

Expenses for City operations totaled \$842,272 a 120.86% increase from the prior fiscal year. Expenses included \$61,541 for public safety, \$13,978 for culture and recreation, \$121,626 for public works, \$287,960 debt service, \$15,180 for capital projects, \$54,027 for general government and transfers of \$287,960.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF FRUITLAND  
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
DeWayne Walter	Mayor	December 31, 2011
Perry Anderson	Council Member	December 31, 2013
Marty Hills	Council Member	December 31, 2011
Rick Honts	Council Member	December 31, 2013
Vicki Saultz	Council Member	December 31, 2011
Scott Wilson	Council Member	December 31, 2013
 City Officials		
Kim Thompson	City Clerk/Treasurer	Appointed September 30, 2009
Gerald Denning	Attorney	Indefinite

CITY OF FRUITLAND

## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Fruitland, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fruitland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited in recent years. Accordingly, we are not expressing an opinion as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to express an opinion as to the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Fruitland as of June 30, 2010 and the respective changes in the City's cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1.

Independent Auditors' Report  
Page 2

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2010 on our consideration of the City of Fruitland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 15 through 16 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

TAYLOR, REES, BECKEY & CO., P.C.  
Certified Public Accountants

September 30, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Fruitland provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 70.53%, or \$272,912 from fiscal 2009 to fiscal 2010. Property tax increased \$1,480. Other City taxes decreased \$22,585 and use of money and property decreased \$7,942. License and permits decreased \$1,611. Charges for services increased \$49,327. Road Use tax increased \$4,884, Miscellaneous decreased \$4,637 and transfers increased \$253,996.
- Disbursements of the City's governmental activities increased 120.86% or \$426,945 in fiscal 2010 from fiscal 2009. Public works disbursements decreased by \$52,764. Capital projects disbursements increased by \$15,180. Public safety increased \$11,321. Culture and Recreation increased \$1,509. Debt service increased by \$253,996. There was also a decrease in general government disbursements of \$56,293. Transfers out increased by \$253,996.
- The City's total cash basis net assets decreased 19.94% or \$182,442 from fiscal 2009 to fiscal 2010.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.



Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets report one kind of activity:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

### Fund Financial Statements

The City has governmental funds, which consist of the General Fund, Special Revenue Funds and Debt Service Fund. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The General Fund is the basic source of receipts and disbursements for normal City functions and services. This fund is supplemented by the Road Use Tax Fund which receives funds from the State of Iowa for use to maintain and improve streets and roadways. This fund is normally used in its entirety for streets and roadways, which any additional needed disbursements paid out of the General Fund. The Local Option Sales Tax Fund has been accumulating for several years for specific purposes contained in the ballots voted on to provide these funds from sales tax receipts. During the first ten years, the bulk of

these funds have been put aside to be used for future sewer and/or water projects. The last ballot put 70% of these receipts aside for a new city hall. While a small percent of these funds have been delegated for infrastructure needs, very little has been used prior to fiscal year 2010. During fiscal year 2010, \$303,141 was used to retire the debt on City Hall and to pay \$15,180 of capital improvements on the Post Office.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased by (\$182,442) during fiscal year 2010. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		2010
Program Receipts		
Charges for Service and Sales	\$	105,295
Road Use Tax		65,212
General Receipts		
Property Tax		111,798
Local Option Tax		63,994
License and Permits		1,368
Unrestricted Investment Earnings		17,430
Miscellaneous		6,773
Transfers In		287,960
Total Receipts	\$	<u>659,830</u>
Disbursements		
Public Safety	\$	61,541
Public Works		121,626
Culture & Recreation		13,978
General Government		54,027
Debt Service		287,960
Capital Projects		15,180
Transfers Out		287,960
Total Disbursements	\$	<u>842,272</u>
Increase In Cash Basis Net Assets		(182,442)
Cash Basis Net Assets, Beginning of Year		915,113
Cash Basis Net Assets, End of Year	\$	<u><u>732,671</u></u>

The City's total receipts for governmental activities increased by 70.53%, or \$272,912. The total cost of all programs and services increased by approximately \$426,945, or 120.85%. The increase in receipts was primarily the result of rents, past due garbage fees and transfers in.

The increase in cost was primarily the result of snow removal cost, garbage fees, retired debt and transfers out.

The cost of all governmental activities this year was \$842,272. However, as shown in the Statement of Activities and Net Assets on page 9, the amount taxpayers ultimately financed for these activities was only \$671,765 because some of the cost was paid by those directly benefited from the programs (\$105,295) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$65,212).

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Fruitland completed the year, its governmental funds reported a combined fund balance of \$732,671, a decrease of \$182,442, below last year's total of \$915,113. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased (\$720) from the prior year to \$77,074.

The Road Use Tax Fund cash balance increased \$41,025 from the prior year to \$96,153.

The Local Option Sales Tax cash balance decreased by (\$222,747) from fiscal 2009 to \$559,444 due to loan payoff and post office remodel.

#### BUDGETARY HIGHLIGHTS

During the 2010 fiscal year, the city amended the budget three times. The first amendment increased the debt payment by \$249,955 to pay off the city's debt as well as an increase to public works for \$42,900 and an additional \$15,200 for post office building expense. The second budget amendment allowed for \$10,000 of equipment to be purchased by the fire department. The third budget amendment allowed an additional \$91,012 for public works. With these amendments the city's actual disbursements were within the budget in all areas except for Debt Service and Transfers Out. Total budgeted disbursements exceeded actual disbursements by \$131,410. Actual transfers exceeded budgeted transfers by \$253,996.

#### DEBT ADMINISTRATION

By June 30, 2010, the City was debt-free.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2011 budget was prepared with a slight tax rate increase from 4.92664 on regular property to 4.92665, and 2.97102 on Agricultural land to 2.97130. The 2011 budget appropriated for total expenditures \$92,301 under revenues. No capital projects were budgeted for in the original 2011 budget.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Kim Thompson, City Clerk, 104 Sand Run Road, Fruitland, Iowa 52749.

## Basic Financial Statements

Exhibit A

City of Fruitland  
Statement of Activities and Net Assets – Cash Basis  
June 30, 2010

		Program Receipts			Net Disbursements
		Disbursements	Charges for Services	Operating Grants Contributions & Restricted Interest	Receipts and Changes
					in Cash Basis Net Assets
Functions/Programs					Governmental Activities
Governmental Activities					
Public Safety	\$	61,541	-		(61,541)
Public Works		121,626	70,127	65,212	13,713
Culture & Recreation		13,978	600		(13,378)
General Government		54,027	34,568		(19,459)
Debt Service		287,960	-		(287,960)
Capital Projects		15,180			(15,180)
Total Governmental Activities		554,312	105,295	65,212	(383,805)
General Receipts					
Property Tax Levied for					
General Purposes					108,043
Utility Tax Replacement Excise Tax					3,755
Local Option Sales & Service Tax					63,994
License and Permits					1,368
Unrestricted Investment Earnings					17,430
Miscellaneous					6,773
Total General Receipts					201,363
Transfers In					287,960
Transfers Out					(287,960)
Change in Cash Basis Net Assets					(182,442)
Cash Basis Net Assets, Beginning of Year					915,113
Cash Basis Net Assets, End of Year					732,671
Cash Basis Net Assets					
Restricted					
Local Option Sales Tax					559,444
Road Use Tax					96,153
Unrestricted					77,074
Total Cash Basis Net Assets	\$				732,671

## Exhibit B

## City of Fruitland

## Statement of Cash Receipts, Disbursements and Changes in Cash Balances

## Governmental Funds

## All Fund Types

For the Year Ended June 30, 2010

	Governmental Fund Types				
	General	Special Revenue		Debt Service	Total
		Road Use Tax	Local Option Sales Tax		
<b>Receipts</b>					
Property Tax and Other City Tax	\$ 111,798	-	-	-	111,798
Local Option Sales Tax	-	-	63,994	-	63,994
Licenses and Permits	1,368	-	-	-	1,368
Use of Money and Property	227	804	16,399	-	17,430
Intergovernmental	-	65,212	-	-	65,212
Charges for Service	105,295	-	-	-	105,295
Special Assessments	-	-	-	-	-
Miscellaneous	6,773	-	-	-	6,773
Transfers In	-	-	-	287,960	287,960
<b>Total Receipts</b>	<b>225,461</b>	<b>66,016</b>	<b>80,393</b>	<b>287,960</b>	<b>659,830</b>
<b>Disbursements</b>					
Public Safety	61,541	-	-	-	61,541
Public Works	96,635	24,991	-	-	121,626
Culture & Recreation	13,978	-	-	-	13,978
Community & Economic Development	-	-	-	-	-
General Government	54,027	-	-	-	54,027
Debt Service	-	-	-	287,960	287,960
Capital Projects	-	-	15,180	-	15,180
Transfers Out	-	-	287,960	-	287,960
<b>Total Disbursements</b>	<b>226,181</b>	<b>24,991</b>	<b>303,140</b>	<b>287,960</b>	<b>842,272</b>
Excess Receipts Over Disbursements	(720)	41,025	(222,747)	-	(182,442)
Cash Balance, Beginning of Year	77,794	55,128	782,191	-	915,113
Cash Balance, End of Year	77,074	96,153	559,444	-	732,671
<b>Cash Basis Fund Balances</b>					
Unreserved					
General Fund	77,074	-	-	-	77,074
Special Revenue Fund	-	96,153	559,444	-	655,597
<b>Total Cash Basis Fund Balances</b>	<b>\$ 77,074</b>	<b>96,153</b>	<b>559,444</b>	<b>-</b>	<b>732,671</b>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS



City of Fruitland

Notes to Financial Statements  
June 30, 2010

NOTE 1- Summary of Significant Accounting Policies

City of Fruitland is a political subdivision of the State of Iowa located in Muscatine County. It was first incorporated in 1972 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, City of Fruitland has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

On July 1, 2009, the City of Fruitland, Iowa and the City of Muscatine, Iowa entered into a Chapter 28E Agreement. The purpose of this Agreement is to provide law enforcement and emergency services conducted by Muscatine Police Department within the corporate city limits of the City of Fruitland, Iowa.

On October 15, 1979, the City of Fruitland, Iowa and the Board of Trustees of Fruitland Township entered into a Chapter 28E Agreement for the purpose of establishing a fire protection agency for the protection and aid assistance for other emergencies or disasters relating to life or property. This agreement is automatically renewable for two year periods thereafter unless sooner terminated.

The City of Fruitland has an agreement with the Muscatine County Solid Waste Management Agency for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of providing solid waste disposal.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The District does not have any business type activities.

City of Fruitland

Notes to Financial Statements  
June 30, 2010

B. Basis of Presentation  
Continued

The Statement of Activities and Net Assets presents the City's net assets. Net assets are reported in two categories.

*"Restricted net assets"* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*"Unrestricted net assets"* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for all road use tax collected and expended by the City for road construction and maintenance.

The Local option Sales Tax Fund is used to account for all local option sales tax collected and expended by the City.

Debt Service:

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long term debt.

City of Fruitland

Notes to Financial Statements  
June 30, 2010

C. Measurement Focus and Basis of Accounting

City of Fruitland maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceed the amounts budgeted in the debt service and transfer functions.

NOTE 2- Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

City of Fruitland

Notes to Financial Statements  
June 30, 2010

NOTE 3 - Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010 was \$2,293 equal to the required contributions for the year.

NOTE 4 - Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 5 - Subsequent Events

Management has evaluated subsequent events through September 30, 2010 the date the financial statements were available to be issued.

## Required Supplementary Information

City of Fruitland

Budgetary Comparison Schedule of Receipts, Disbursements and  
Changes in Balances - Budget and Actual (Cash Basis) -  
All Governmental Funds

Required Supplementary Information  
Year ended June 30, 2010

	Governmental Funds			Final to Actual Variance
	Activities	Original	Final	
Property tax and other city tax	\$ 111,798	108,999	108,999	2,799
Local option sales tax	63,994	61,590	61,590	2,404
Licenses and permits	1,368	3,038	3,038	(1,670)
Use of money and property	17,430	27,800	27,800	(10,370)
Intergovernmental	65,212	60,000	60,000	5,212
Charges for service	105,295	55,379	55,379	49,916
Miscellaneous	6,773	5,900	5,900	873
Other Financing Sources	-	67,928	67,928	(67,928)
Total Receipts	371,870	390,634	390,634	(18,764)
Public Safety	61,541	52,116	62,116	(575)
Public Works	121,626	120,250	254,162	(132,536)
Culture & Recreation	13,978	14,600	14,600	(622)
Community & Economic Development	-	825	825	(825)
General Government	54,027	54,900	54,900	(873)
Debt Service	287,960	33,964	283,919	4,041
Capital Projects	15,180	-	15,200	(20)
Total Disbursements	554,312	276,655	685,722	(131,410)
Transfers In	287,960	-	-	287,960
Transfers Out	287,960	33,964	33,964	253,996
Excess Receipts over Disbursements	(182,442)	80,015	(329,052)	146,610
Balance, beginning of year	915,113	932,606	932,606	(17,493)
Balance, end of year	\$ 732,671	1,012,621	603,554	129,117

See accompanying independent auditors' report.

City of Fruitland  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds and Debt Service. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, total budget amendments increased budgeted disbursements by \$409,067. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service and transfer functions.

Independent Auditors' Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance with  
Government Auditing Standards



Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Fruitland, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 30, 2010. Our report on the financial statements which were prepared in conformity with another comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fruitland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Fruitland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of

the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described on page 19, we believe items A and B are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fruitland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Fruitland and other parties to whom City of Fruitland may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Fruitland during the course of my audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

TAYLOR, REES, BECKEY & CO., P.C.  
Certified Public Accountants

September 30, 2010

City of Fruitland

Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- A. Segregation Of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize Council members to provide additional control through review of financial transactions and reports.

- B. Preparation of Financial Statements – The City of Fruitland, Iowa does not employ an accountant with the technical expertise to prepare its financial statements (including footnote disclosures) in conformity with accounting principles generally accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response – Management feels auditor preparation of financial statements is acceptable. Internal financial statements without note disclosure are prepared monthly for reporting and decision making purposes. The requirements and format of audited financial statements are different than the financial statements produced internally. Management has determined it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to issuance.

Conclusion - Response acknowledged.

City of Fruitland

Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

Other Findings Related to Statutory Reporting:

1. Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
2. Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
3. Business Transactions - Viewed business transactions between the City and city officials and employees. All items viewed were reasonable in nature and necessary to city operations.

Recommendation - The City should refrain from conducting business with related parties. The City should consult legal counsel for the disposition of this matter.

Response - We will refrain from conducting business with related parties when possible.

Conclusion - Response accepted.

4. Bond Coverage - Surety bond coverage of City officials and employee is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
5. Council Minutes - Although minutes of council procedures were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should publish minutes as required, including all necessary information regarding the motions made.

Response - We will publish minutes as required.

Conclusion - Response accepted.

City of Fruitland

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

6. Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
7. Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service and transfer functions. Chapter 384.20 of the Code of Iowa states in part "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended before disbursements exceed the budget.

Conclusion - Response accepted.